

Full Length Research Paper

Success factors of entrepreneurial activity in the Overberg region of Western Cape, South Africa

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Entrepreneurial activities around the world accounted for about 70% of the global GDP on average. However, in South Africa entrepreneurial activities only share 40% of the country's GDP. With an unemployment rate of approximately 25%, accelerating entrepreneurial activity becomes crucial in a developing country like South Africa. A recent study executed in the Overberg rural district has shown vast opportunity for new endeavors in this direction. Entrepreneurial activity is mostly centered on large-scale agricultural practices. This district is the largest apple producer in the country and the second largest pear producer. However, unemployment in this region has increased in recent years due to the nature of fruit farming which is seasonal. Off-season farmers employ only up to 9% of the district farm workers which leaves 11.1% workers without employment for the rest of the year. Though this area is affluent with natural resources; scarcity of skills, poor infrastructure and lack of technology result in slow economic growth. Further, the absenteeism of entrepreneurial success factors makes it impossible for the many survivalist businesses in the informal sector to be sustainable and to show any form of growth. This paper will analyze the success factors or lack thereof and make recommendations towards opportunities that will help to advance the Overberg region's entrepreneurial activity.

Key words: Entrepreneurship, social entrepreneurship, indigenous entrepreneurial activity.

INTRODUCTION

The Overberg District is situated in the south of the Western Cape and borders the Indian and Atlantic Oceans to the south, and Cape Town, Cape Winelands and Eden in the west, north and east. The Overberg makes up the following regions: Theewaterskloof, Cape Agulhas, Overstrand, Swellendam and Overberg district. The area is characterized by stunning mountain ranges, a large rolling inland plateau and a coastal plateau and part of the Karoo landscape to the north. Tourism is a major driver of economic activity in Overberg, which is also known as the 'Golden Gateway' to the famous Garden Route. Major tourist activities are located along the coastlines of the Indian and Atlantic Oceans. The

Overberg's natural environment is unique, including large areas of pristine fynbos vegetation, and the district offers viable economic opportunities.

Conversely, recent studies have shown that, 55.7% of the population are employed, 20.2% are unemployed and 24.1% are economically not active (LED, 2008:27). The general government employs only 13.6% (LED, 2008:67) of the region's labour force, signifying that 86.4% of the current labour force is dependent on entrepreneurial activity, in either formal or informal sectors. If the government only employs 13.6% of the 55% inhabitants currently employed, then the private sector has a bigger responsibility in terms of job creation in this region. Factors influencing economic growth are illiteracy, underdeveloped infrastructure, lack of skilled people, absenteeism of proper business support, inability of business owners to establish sustainable need identified

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businesses and the shortage of tertiary education institutions in this region.

However, measuring the situation from business perspective the following aspects can contribute to business growth and entrepreneurial activity in the Overberg namely, understanding the “culture of the region, proper businesses systems, information technology and system capabilities, financial resources and personnel resources (Beaver 2002:16). Additionally, Cupido (2010) is of the opinion that social competence intelligence, financial management, target market research and costing are but a few of business success factors which are lacking in the peri-urban rural areas in South Africa at large, including the Overberg district.

Problem statement

Although the Overberg region is affluent with natural resources; scarcity of skills, poor infrastructure and lack of technology result in slow economic growth. Furthermore, the absenteeism of entrepreneurial success factors makes it impossible for the many survivalist businesses in the informal sector to be sustainable and to show any form of growth.

Research question

The above problem statement led to the following research question:

1. What are the constraining factors to entrepreneurial success in the Overberg region?
2. What are the possible ways of turning these constraints into windows of opportunity?

Research objectives

The aim of this study is to analyze the success factors or lack thereof within the Overberg region, in order to make recommendations towards opportunities that will help to advance the region's entrepreneurial activities.

Literature on entrepreneurial success factors

The common research areas in the literature are entrepreneurs' leadership, entrepreneurial orientation, management skills, competencies, human capital, personality traits and circles of network. McClelland (1961) asserted that qualities associated with a high need for achievement contribute to the success of new venture. Brockhaus (1982) reviewed a number of psychological characteristics and is of the opinion that need for achievement, internal locus of control and a risk taking

propensity as attributes contributing to the success of new business start-ups. However, Brockhaus and Horwitz's (1986) empirical findings showed that entrepreneurs with internal locus of control strive for high achievement. It is believed that entrepreneurs take greater degree of risk especially in areas where they have control or competencies in realizing the profit (Alam, 2009). Mitton (1989) confirmed that entrepreneurs eagerly undertake the unknown and uncertain circumstances, thus the entrepreneurial inclined individuals are expected to display more tolerance of ambiguity than others.

Entrepreneurs' personality traits have also been identified to have impact on business performance (Robinson and Sexton, 1994). Studies also found that personality traits such as locus of control and ambiguity tolerance influenced the business success directly and the business process indirectly (Entrialgo, Fernandez, and Vazquez, 2000). Kiggundu (2002) later added demographic variables to his study and found that personality traits have direct influence on the success of African entrepreneurs. Although studies on personality traits have played an important role in contributing to the success of entrepreneurs worldwide, nevertheless, personality traits have been criticized both on theoretical and empirical ground in the studies of entrepreneurship (Robbin and Judge, 2009).

Entrepreneurs with high initiative are able to stay ahead of their competitors, and are role model for their employees. Initiative is goal-directed and action-oriented (Frese et al., 1997) and, therefore, closely linked to an active strategy. It is also a psychological variable behind the reason whether a person has what it takes to become an entrepreneur. An entrepreneur with high personal initiative is someone who initiate to take action and to be proactive. Whether it is to determine the success of start-ups or to successfully lead a company to growth-stage, personal initiative, which represents the ability to self-start, proactive, and over-coming barriers plays a major role.

Unlike personal initiative, human capital, which is considered passive approach (where individuals simply reacting to the environment according to what they possessed) according to Kumar (2006). Human capital is the theory concerned with knowledge and capacity; this includes the education level, industry experience and management experience. Human capital contributes to business start-ups and venture growth (Rose, Kumar and Yen, 2006).

Karl Albright (2000) concluded in his theory that Social Intelligence (SI) is the ability to get along with others while winning their cooperation. A combination of 'social radar', namely sensitivity to the needs of others, an attitude of generosity and consideration and a set of practical skills for interacting is critical for any venture success. In concordance, Cupido (2010) maintained that Social intelligence plays a critical role in the success of a

business, as the skill of networking and branding builds relationships, not only with current stakeholders, suppliers and customers but also with prospective individuals who want to do future business with you.

METHODOLOGY

The research methodology is mostly concerned with how the information pertaining to the research was collected, analyzed and reported. According to Babbie and Mouton (2001, cited in Henning 2004:36), "research methodology focuses on the process and the kinds of tools and procedures used during the research process". This study has utilized a combination of both qualitative and quantitative research methodologies, which is achieved by designing an approach that provides a platform for the researcher to be able to view the research phenomena from more than one perspective, namely triangulation. The main differences between qualitative and quantitative research have been explained in the following sub-sections.

Qualitative research methodology

Qualitative research studies are suitable in situations where the researcher considers human actions within a natural setting. Babbie and Mouton (2001:271) have stated that qualitative methods of data collection include focus groups, in-depth interviews observation and literature reviews. Denscombe (2007: 247-252) has observed that qualitative research is associated with words or images as the unit of analysis. It is more suitable for studies, which require a holistic perspective, unlike quantitative research, which isolates variables and focuses on specific factors. Qualitative research concentrates on the natural setting of the phenomena and inquires why things are the way they are, how they are related and its interdependent nature. This method also requires the researchers' viewpoint in direction of the study, which has become part of this research.

Interviews were conducted with entrepreneurs in the region, in order to gain a broader understanding of the research problem (Naris, 2009:13). Respondents that were interviewed include entrepreneurs/business owners, government representatives, business development support agencies etc. About ten (10) individuals representing each of the three groups were interviewed. In addition, secondary information was obtained from the Local Economic Development plan of the Overberg municipality as well as the integrated development plan for the region.

Quantitative research methodology

Quantitative research is a systematic and objective process that investigates a particular problem by using numerical data. Quantitative research methods include face to face interviews, self-administered questionnaires and telephonic surveys (Babbie and Mouton, 2001:230). Self administered questionnaires were sent out to entrepreneurs in various communities across the Overberg region to determine what entails the entrepreneurial activity in their district. All respondents were given an opportunity to review their responses prior to publication to ensure that no confidential information is disclosed. Quality assurance was undertaken prior to dispersing of questionnaires in order to ensure reliability of research instrument. The researchers endeavoured to remain objective throughout the process.

Sample size

A sample size of N = 50 respondents consisting of 30

entrepreneurs/business owners, 10 government representative from the local municipality, and 10 respondents from business development supporting agencies. Variables such as finance, skills, marketing and management related factors etc., were explored.

Data analysis

Data analysis is the process of filtering information from one's primary and secondary sources of information (Brynard and Hanekom, 2005). This process entails discarding of immaterial information and upholding the facts. Finally, these facts are converted into research data by explaining how these facts relate to the research, and what they mean to the research problem, in addition to how they assisted in resolving the research problems. An interpretive approach of analyzing qualitative data (Naris, 2009:14) was employed. The quantitative data was analyzed statistically by using the Statistical Package for Social Sciences (SPSS).

RESULTS AND DISCUSSION

Human capital elements of the entrepreneurs such as family-environment, education, age, work history, role models and support networks have been identified to contribute to the business venture success (Hisrich, 1990; Krueger, 1993). The assumption is that higher human capital of the entrepreneurs increases the chances of their company's survival and success (Dyke, Fischer and Reuber, 1992; Bruederl and Preisendoerfer, 1998). Lussiers and Pfeifer (2001) empirically- found that in addition to competencies and personality traits, human capital of individual entrepreneurs play a role in contributing to the success of entrepreneurs. His study found that entrepreneur with higher education level, Industrial and managerial experience, and business exposure has greater chance of succeeding than people without tertiary education, minimal industrial and managerial experience, and with little or no business exposure.

Bruederl and Preisendoerfer (1998) as concurred by Cupido and Oliver (2009) found in their research that social network support is related to both, survival and growth of newly founded companies. A network approach assumes that entrepreneur's ability to organize and coordinate networks between individuals and organizations are critical for starting up a company and business success. Thus another aim of this study was to examine to what extent social network support significantly contribute to the success of managing companies at growth stage.

Challenges to entrepreneurial growth in the Overberg region

Questions have also been raised pertaining to the government's role in supporting the entrepreneurs both during start-up and venture growth. Many are unaware of

funds and programs provided by the government, while some believe it is impossible to obtain such assistance, others are just simply ignorant of it. Furthermore, one of the critical skills that most of the survivalist entrepreneurs in the Overberg lack is life skills and the ability to convey their product or service effectively to the target market. This was also similar to the findings of Alam (2009) in Bangladesh. Cupido (2010) has aligned this to a lack of emotional intelligence which describes the ability, capacity, skill or, a self-perceived grand ability to identify, assess, manage and control the emotions of one's self, of others, and of groups (Goleman 1999). When asked how assertive the entrepreneurs are in presenting their product to larger companies, only 20% of the respondents were positive.

However, apart from the absenteeism of social and emotional intelligence, factors such as the rural culture, infrastructure, literacy levels, and business systems play an undeniable role in the low entrepreneurial activity in this region. Another factor that can be added is what is called brain drain, meaning most of the educated people from the area move to the city, leaving the region without the necessary expertise to develop the natural resources or expanding potential business opportunities in the region (Van der Schyff 2010).

The Overberg district economy is dominated by the following sectors: Trade (21.8%), Agriculture (19.6%) Finance and Business (15.5%) and Manufacturing (13.3%) (LED, 2008). Nevertheless, there are endless opportunities in the tourism sector as well as agritourism. Though tourism is not an economic sector on its own (as classified by the SIC), but forms part of other sectors especially the trade, transport and finance sectors, it is suggested that this industry should be discussed separately from the other sectors (LED, 2008).

Tourism has been identified as one of the industries with the largest potential for growth and development in the Western Cape. This is particularly true in the Overberg region, where the unique diversity of communities, cultures and natural resources hold huge potential for sustainable tourism. The region enjoys a comparative advantage in this industry, firstly in terms of its own resources, and secondly in terms of its location. The resource base includes a wide spectrum of elements such as the scenic beauty and views (e.g. the Brandy, Fynbos and Whale routes), the sea (e.g. scuba diving, fishing), Kogelberg Biosphere Reserve, and various tourism and recreation developments such as the Caledon Casino and Spa, and the recently opened Western Cape Hotel and Spa (LED 2008).

Some elements that constrain the development of the tourism industry have been identified, namely, lack of co-operation between local tourism bureau, inadequate marketing of the area as a tourism destination, lack of a widely recognized "brand name" for the Overberg region, lack of skill and innovativeness from prospective entrepreneurs.

The value chain of the tourism sector is quite distinct from those of other (more traditional agricultural, manufacturing, mining etc.) sectors in that, with the latter, a tangible product is (typically) produced and then exported (or locally utilised). Points of production and consumption tend to be quite distinct. In the case of the tourism sector however, the "customer" must typically come to the place of production to "consume" the product. This consumption of the product is as much about interacting with the physical component of the service, as it is about the experience thereof. This makes for a relatively short and direct value chain for the sector

Other Challenges

Climate change impacting on rain fall patterns and existing agricultural production, water supply are becoming scares due to unusual rainfall patterns, poaching and illegal harvesting result in low profit, farm evictions, volatile exchange rate, narrowing agricultural profit margins, delays in financial commitments for infrastructure and political climate are all challenges which prospective entrepreneurs will have to deal with. In spite of these major challenges, there exists a huge window of opportunity within this region, which is explicated in the next section. These are very common to developing world as identified by Alam et al, (2009).

Windows of opportunity

The value chain presents opportunities in which value could be added to the tourism industry. The tourism industry could be seen as an opportunity for the Overberg to create job opportunities, encourage transformation and empowerment. The different areas within the value chain present opportunities for the Overberg are discussed below:

Suppliers

There are various accommodation establishments in the Overberg district; however, there is an opportunity for the development of more middle income establishments such as hotels and lodges. The development of the Bredasdorp airport would also present an opportunity of increased accessibility for tourist (Connecting flight from Cape Town). It would also indirectly provide potential for the development of car hire activities around the airport as well as trade possibilities in and around the airport (LED, 2008).

Distribution

The Overberg is widely advertised as a tourist destination

on CTRU which has a variety of benefits. The Overberg district can however not rely on this as it's only marketing strategy and therefore the local municipality of Overberg has to, in conjunction with the ODM, create a better marketing strategy.

Intermediaries

The intermediaries' component creates opportunity for SMME development to take place; particularly focusing on increasing awareness of products, and its geographic spread within the Overberg district. Group affiliation is an important part of accessing business. Role players in the district, including government, private sector supplier groups and community structures, must provide a united and compelling value proposition to influence intermediaries to communicate and sell tourism to customers.

Customers

It is important to attract tourists to the area (international and domestic) for business and leisure, because without tourists ('customers') there is no 'businesses. Tourism brings massive economic benefit to a region.

Other opportunities

Other opportunities includes: Potential for organic farming, Mari-culture development, Aquaculture development industries, Bredasdorp Airport could enhance transport network and job creation, opportunities exist in trade and craft market industries, development of SMME businesses where on the job training is done. These are but a few opportunities for entrepreneurs to explore.

Conclusion

Many start-up entrepreneurs do have the necessary skills and opportunity to create a giant company; nevertheless, concerns such as the lack of education, experience, moral and financial support and social competency have always been some of the major stumbling blocks or rather mental blocks holding them back from their journey to success.

In order to create an entrepreneurial mind set in this region one have to start by changing the rural mind set of only certain race groups endeavor into business. The different background of the entrepreneurs plays a vital role in the decision to be an entrepreneur who undertakes to establish a growing venture or a survivalist business.

This can be attributed in part to the fact that a small firm's growth depends to a large extent on the growth of

the macro economy. Since macro economic growth over the past years has, been modest, it may be concluded that small businesses have not yet been able to develop to their full potential. Nevertheless, more critical voices argue that the promotion of South Africa's SMME economy suffers from poor implementation of policy initiatives, which are in turn dolefully inadequate (Bloch, 2000).

To date, a serious economic analysis has been lacking, despite an abundance of policy literature on SMMEs in South Africa, especially in the rural areas, which focuses on various aspects such as skills, entrepreneurship, finance and others. The problem seems to be the absence of an existing articulated framework on what all these different aspects collectively mean in the context of economic growth and the problem of unemployment.

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